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November 16, 2004

Carolyn Adams
Washington Dept. of Social & Health Services
Medical Assistance Administration
Division of Management and Budget Services
P.O. Box 45510
Olympia, WA 98504-5510

Re: OPPS Impact Analysis – Revised November 16, 2004

Dear Carolyn:

Per your request, Milliman, Inc. (Milliman) has worked with Washington DSHS – Medical Assistance Administration (MAA) personnel, to assess the impact of the outpatient hospital prospective payment system (OPPS) implementation on various stakeholders, and estimate the revenue neutral Medicaid conversion factor. We understand that MAA will use this analysis for internal and external communications.

This program and output were prepared for internal use by Washington DSHS – Medical Assistance Administration and may not be released to others without prior written consent from Milliman, Inc. It is our understanding that the information contained in this letter may be utilized in a public document. To the extent that the information contained in this letter is provided to third parties, the letter should be distributed in its entirety. Any user of the data must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the data presented.

Milliman makes no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for Washington DSHS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties. Other parties receiving this letter must rely upon their own experts in drawing conclusions about Washington's hospital outpatient prospective payment system. The estimates included in this letter cannot and do not consider every variation from the key assumptions and the effect of variations on the results.

Background

For a variety of reasons, MAA is implementing an OPPS, effective November 1, 2004. This OPPS will be based on the Medicare OPPS with a budget target adjustment, so that the amounts paid to providers in aggregate would initially be approximately equal to the current system of payment.

Since this project was started in late 2003/early 2004, it was decided that CY 2002 paid claims would be used as the underlying data evaluation source. The 2002 claims were re-priced to 2003 MAA

allowed amounts using fee schedules and Ratio of Cost to Charges (RCCs) to reflect current payment policies and rates. The 2002 billed charges were trended to 2003. This re-pricing was performed by MAA personnel and was relied upon by Milliman. We understand that this process was outlined and presented to the Washington State Hospital Association on June 22, 2004.

High Level Results

We estimate that for the claims reviewed, paying 86.7% of 2003 Medicare would result in the same revenue to providers as the 2003 MAA allowed amounts, as estimated by MAA.

Methodology and Detailed Results

MAA supplied Milliman with a 2002 claims file for all OPSS eligible facilities, with estimated MAA 2003 allowed amounts and an initial pass OPSS payment (using the L&I OPSS system). Milliman then worked with MAA to review the OPSS payments to ensure that the allowed amounts were consistent with the way MAA intends to pay claims beginning November 1, 2004. We identified a number of claims that did not process as intended by MAA in the L&I grouper. We discussed these claims with MAA and made appropriate adjustments to the 2003 OPSS estimates.

A number of claims were excluded from the final comparison of 2003 OPSS to 2003 MAA, due to inadequate information to re-price the claim for either OPSS or MAA. This was generally due to obsolete (deleted) procedure codes and missing procedure codes. Exhibit 1 summarizes the claims submitted, the exclusions, the adjustments, and sub-totals that we were able to make the final comparison on. The bottom of Exhibit 1 lists the major adjustments that were made to the 2003 OPSS payments.

MAA estimated the percent of the RCC payments that were for Graduate Medical Education (GME) and that amount was removed from the MAA 2003 allowed payments. We understand that the 2004 conversion factors are "grossed up" to include an adjustment for GME so that hospitals are made whole. Attachment A presents the data used for this adjustment.

Exhibit 2 presents the conversion factor calculation. Notice that the "OPSS 2003 with CF" column totals to the same MAA 2003 paid amounts. This says that paying 86.7% of 2003 Medicare for the APC claims included in our analysis would result in the same overall payment to providers.

Exhibit 3 includes five tables with a presentation of the impact by provider, by county, by MSA, by size of facility, and the distribution of facilities by size and impact. These exhibits are helpful when assessing the re-distribution of revenue. It appears that the winners and losers are fairly evenly distributed by size and region. Since the current MAA payment system is based on cost, high cost providers will receive less money under OPSS and low cost providers will receive an increase. The OPSS program is intended to be revenue neutral in aggregate, but not revenue neutral to each provider. While the OPSS methodology is not intended to be revenue neutral for each provider, it will be more equitable since it uses a common fee schedule for all providers regardless of cost.

Six OPSS hospitals have been re-classified by CMS for Medicare wage index adjusted payments. MAA adopted these re-classifications and they are shown in Exhibit 3. The OPSS payments for these facilities were calculated at the re-classified amounts.

OPPS Assumptions for MAA

At this time, the final MAA OPPS payment system is still being configured. Therefore, we were not able to test the results using the actual system that will be used starting November 1, 2004. We did work with MAA to make payment assumptions in the analysis that are consistent with the way claims will be paid.

A brief summary of the OPPS assumptions used:

1. All procedures with an APC allowed amount used the APC amount.
2. Non-APC procedures will be paid using existing MAA fee schedules or paid percent of charges.
3. Procedures that are not covered by Medicare, but are covered by MAA will continue to be paid using MAA payment methodologies
4. Claim edits were not used with the exception of maximum procedure limits and multiple procedure discounting.

Impact of Exclusions

Over 75% of the claims were included in the analysis. Based on our review of the excluded claims, we believe that if they were coded correctly and included in the analysis that would not materially change the conversion factor. If the excluded claims are biased toward claims that Medicare pays significantly higher or lower from the amount that MAA pays, then that could bias the conversion factor higher or lower.

Healthy Options Estimated Impact

Using the encounter data submitted by Healthy Options contractors, we do not have actual paid amounts to compare to Medicare OPPS. We have reviewed the FFS ratio of MAA to OPPS by age to assess the impact, Exhibit 4 shows the results.

Consideration of the 24-Hour Rule Change

MAA has recently changed the rule that claims under 24 hours must be outpatient and claims over 24 hours must be inpatient to follow standard industry practices to define inpatient and outpatient claims. MAA identified 598 claims that were coded inpatient but should be outpatient for our analysis. Unfortunately there was no CPT detail and we were not able to re-price them under OPPS. Given that these are approximately 0.1% of the total claims we do not believe that they would materially affect the results.

MAA identified 175 claims that were paid outpatient and would be inpatient under current rules. These inpatient claims were all excluded from the conversion factor analysis.

Projection to 2004

The analysis was performed comparing 2003 MAA payments to 2003 Medicare OPPS. Assuming that the 2004 MAA payment would reflect a "cost" increase for the providers and the Medicare increase from 2003 to 2004 for OPPS accounts for cost increases, then using 86.7% of 2004 Medicare will approximate 2004 MAA.

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Data Reliance

For this analysis, we relied on data provided to us by Cynthia Smith of MAA. We have not audited this data, however, we have reviewed it for reasonableness. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Variability of Results

Our projected estimates are not predictions of the future; they are only projections based on the assumptions. If the underlying data or assumptions are incorrect, then the estimates will be incorrect. The actual future OPPS costs will vary from our estimates and the emerging results should be carefully monitored with assumptions adjusted as appropriate.

Please call me at (206) 504-5569 or Tim Barclay (206) 504-5603 if you have any questions. Thank you for the opportunity to assist MAA.

Sincerely,

Will Fox, FSA, MAAA
Principal & Consulting Actuary

/amd
Enclosures

cc: Cynthia Smith
Tim Barclay

MILLIMAN, INC.

Exhibit 1
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
Claims Analysis Summary

Description	Claims	Lines	MAA 2003	Adjusted OPPS 2003
Original Claim Set	569,122	2,088,509	NA	NA
Exclusions				
Total	131,707	552,223	NA	NA
Used	437,415	1,536,286	\$76,755,435	\$86,968,781
Adjustments				
Zeros Adjusted Up	162,719	226,324	\$15,995,230	\$21,549,179
Fees Adjusted to Zero	920	1,940	\$85,445	\$0
Max Units Adjustment	65,891	246,136	\$17,877,944	\$3,536,790
Other				
APC/Bundled	135,932	478,902	\$34,844,864	\$53,930,860
Fee/Pct	71,953	582,984	\$7,951,952	\$7,951,952
Adjusted Claim Set	437,415	1,536,286	\$76,755,435	\$86,968,781

Exhibit 2
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
Budget Neutral Conversion Factor Calculation

HCPCS OPPS Category	Allowed Amount		Conversion Factor	OPPS 2003 with CF
	MAA 2003	OPPS 2003		
FEE	\$9,848,662	\$9,848,662		\$9,848,662
PCT	110,678	110,678		110,678
APC & Bundled	66,796,095	77,009,441	0.867	66,796,095
Total	\$76,755,435	\$86,968,781		\$76,755,435

Exhibit 3a
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
by Provider - Single APC Conversion Factor

Provider	State	County	MSA	OPPS to MAA Ratio
KADLEC HOSPITAL	WA	BENTON	6740	0.74
KENNEWICK GENERAL HOSPITAL	WA	BENTON	6740	0.88
CENTRAL WASHINGTON HOSPITAL	WA	CHELAN	7600	1.04
WENATCHEE VALLEY HOSPITAL	WA	CHELAN	WA	1.34
SOUTHWEST WASHINGTON MED CTR	WA	CLARK	6440	1.09
ST JOHNS HOSPITAL	WA	COWLITZ	6440	1.08
OUR LADY OF LOURDES	WA	FRANKLIN	6740	0.93
GRAYS HARBOR COMMUNITY	WA	GRAYS HARBOR	5910	0.93
AUBURN REGIONAL MEDICAL CTR INC	WA	KING	7600	1.20
ENUMCLAW COMMUNITY HOSPITAL	WA	KING	7600	0.96
EVERGREEN HOSPITAL MEDICAL CTR	WA	KING	7600	1.02
GROUP HEALTH COOP - PUGET SOUND	WA	KING	7600	1.23
HARBORVIEW SPECIAL OH	WA	KING	7600	0.93
HIGHLINE COMMUNITY HOSPITAL	WA	KING	7600	1.17
NORTHWEST HOSPITAL	WA	KING	7600	0.97
OVERLAKE HOSPITAL MEDICAL CNTR	WA	KING	7600	1.06
ST FRANCIS COMMUNITY HOSPITAL	WA	KING	7600	0.91
SWEDISH HOSP MED CENTER	WA	KING	7600	0.85
SWEDISH MEDICAL CNTR-PROVIDENCE	WA	KING	7600	0.96
UNIV OF WASHINGTON MEDICAL CTR	WA	KING	7600	1.11
VALLEY MEDICAL CENTER	WA	KING	7600	0.92
VIRGINIA MASON HOSPITAL	WA	KING	7600	0.96
HARRISON MEMORIAL HOSPITAL	WA	KITSAP	7600	1.01
MASON GENERAL HOSPITAL	WA	MASON	WA	0.94
GOOD SAMARITAN HOSPITAL CENTER	WA	PIERCE	8200	1.01
ST CLARE HOSPITAL	WA	PIERCE	8200	1.03
ST JOSEPH HOSPITAL & HLTH CARE	WA	PIERCE	8200	0.83
TACOMA GENERAL HOSPITAL	WA	PIERCE	8200	0.85
PUBLIC HOSP DIST#1 SKAGIT CO	WA	SKAGIT	7600	1.37
SKAGIT CO HOSPITAL DISTRICT #2	WA	SKAGIT	WA	1.11
CASCADE VALLEY HOSPITAL	WA	SNOHOMISH	7600	1.10
PROVIDENCE GENERAL MEDICAL CTR	WA	SNOHOMISH	7600	1.14
STEVENS MEMORIAL HOSPITAL	WA	SNOHOMISH	7600	1.12
VALLEY GENERAL HOSPITAL	WA	SNOHOMISH	7600	1.22
DEACONESS HOSP - SPOKANE	WA	SPOKANE	7840	1.09
HOLY FAMILY HOSPITAL	WA	SPOKANE	7840	0.93

Exhibit 3a
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
by Provider - Single APC Conversion Factor

Provider	State	County	MSA	OPPS to MAA Ratio
SACRED HEART MEDICAL CENTER	WA	SPOKANE	7840	0.93
VALLEY HOSPITAL & MEDICAL CTR	WA	SPOKANE	7840	1.15
COLUMBIA CAPITAL MEDICAL CENTER	WA	THURSTON	5910	1.07
ST PETER HOSPITAL (DE)	WA	THURSTON	5910	0.97
ST MARY MEDICAL CENTER	WA	WALLA WALLA	6740	1.09
WALLA WALLA GENERAL HOSPITAL	WA	WALLA WALLA	WA	1.09
ST JOSEPH HOSPITAL	WA	WHATCOM	0860	1.13
PROVIDENCE YAKIMA MEDICAL CNTR	WA	YAKIMA	9260	1.09
YAKIMA VALLEY MEMORIAL HOSPITAL	WA	YAKIMA	9260	0.92
PROVIDENCE CENTRAL MEM HOSPITAL	WA	YAKIMA	9260	1.16
EMANUEL HOSPITAL	OR	MULTNOMAH	6440	0.94
GOOD SAMARITAN HOSPITAL	OR	MULTNOMAH	6440	1.06
OREGON HEALTH SCIENCES UNIV	OR	MULTNOMAH	6440	0.86
PORTLAND ADVENTIST MED CENTER	OR	MULTNOMAH	6440	0.95
PROVIDENCE MEDICAL CENTER (NC)	OR	MULTNOMAH	6440	0.94
ST VINCENT HOSPITAL (NC)	OR	WASHINGTON	6440	0.82
KOOTENAI MEDICAL CENTER (NC)	ID	KOOTENAI	ID	1.13
ST JOSEPH HOSPITAL INC	ID	NEZ PERCE	ID	0.96
Total				1.00

Exhibit 3b
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
by County - Single APC Conversion Factor

County	State	Provider Count	Allowed Amount		OPPS to MAA Ratio
			MAA 2003	OPPS 2003 with CF	
BENTON	WA	2	\$3,048,299	\$2,492,749	0.82
CHELAN	WA	2	956,435	1,056,011	1.10
CLARK	WA	1	2,567,677	2,795,564	1.09
COWLITZ	WA	1	2,172,166	2,337,271	1.08
FRANKLIN	WA	1	1,082,198	1,005,088	0.93
GRAYS HARBOR	WA	1	2,009,745	1,867,101	0.93
KING	WA	15	24,393,301	23,912,604	0.98
KITSAP	WA	1	1,216,462	1,233,558	1.01
MASON	WA	1	555,163	522,530	0.94
PIERCE	WA	4	11,673,930	10,336,686	0.89
SKAGIT	WA	2	1,449,880	1,933,325	1.33
SNOHOMISH	WA	4	8,888,939	10,128,660	1.14
SPOKANE	WA	4	4,326,819	4,312,789	1.00
THURSTON	WA	2	3,820,934	3,804,393	1.00
WALLA WALLA	WA	2	792,377	866,134	1.09
WHATCOM	WA	1	2,255,881	2,558,318	1.13
YAKIMA	WA	3	4,469,380	4,592,433	1.03
MULTNOMAH	OR	5	684,978	632,336	0.92
WASHINGTON	OR	1	60,176	49,149	0.82
KOOTENAI	ID	1	9,645	10,931	1.13
NEZ PERCE	ID	1	321,051	307,805	0.96
Total		55	\$76,755,435	\$76,755,435	1.00

Exhibit 3c
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
by MSA - Single APC Conversion Factor

Description	MSA	Provider Count	Allowed Amount		OPPS to MAA Ratio
			MAA 2003	OPPS 2003 with CF	
Whatcom	0860	1	\$2,255,881	\$2,558,318	1.13
Kitsap	1150	0	0	0	0.00
Thurston	5910	3	5,830,678	5,671,494	0.97
Port-Van	6440	8	5,484,997	5,814,320	1.06
Tri-Cities	6740	4	4,690,103	4,110,324	0.88
Sno-King	7600	22	36,477,021	37,740,357	1.03
Spokane	7840	4	4,326,819	4,312,789	1.00
Pierce	8200	4	11,673,930	10,336,686	0.89
Yakima	9260	3	4,469,380	4,592,433	1.03
Rural	WA	4	1,215,930	1,299,978	1.07
Rural	ID	2	330,696	318,736	0.96
Total		55	\$76,755,435	\$76,755,435	1.00

Exhibit 3d
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
by Aggregate Allowed Amount - Single APC Conversion Factor

Aggregate MAA Allowed Range	Provider Count	Allowed Amount		OPPS to MAA Ratio
		MAA 2003	OPPS 2003 with CF	
0 - 250,000	10	\$1,129,720	\$1,292,975	1.14
250,000 - 500,000	6	1,948,403	1,952,402	1.00
500,000 - 1,000,000	11	8,884,452	9,505,933	1.07
1,000,000 - 1,500,000	8	10,280,678	10,455,269	1.02
1,500,000 - 2,000,000	6	10,710,738	10,602,594	0.99
2,000,000 +	14	43,801,443	42,946,263	0.98
Total	55	\$76,755,435	\$76,755,435	1.00

Exhibit 3e
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
Provider Count by OPPS to MAA Ratio and Aggregate Allowed Amount

OPPS to MAA Ratio	Aggregate MAA Allowed Range						Total
	<250,000	250,000 - 500,000	500,000 - 1,000,000	1,000,000 - 1,500,000	1,500,000 - 2,000,000	2,000,000+	
< 0.85	1	0	0	1	0	2	4
0.85 - 0.90	1	1	0	0	1	1	4
0.90 - 0.95	1	1	2	2	1	4	11
0.95 - 1.00	1	2	1	0	2	1	7
1.00 - 1.05	0	0	2	2	1	0	5
1.05 - 1.10	2	1	2	2	0	2	9
1.10 - 1.15	2	0	1	0	0	4	7
1.15 +	2	1	3	1	1	0	8
Total	10	6	11	8	6	14	55

Exhibit 4
Washington State DSHS - MAA
MAA to OPPS Payment Comparison
2003 Payment Methods Applied to CY 2002 Claims
by Age - Single APC Conversion Factor

Age Band	Allowed Amount		OPPS to MAA Ratio	HO Billed
	MAA 2003	OPPS 2003 with CF		
<18	\$12,553,925	\$12,796,500	1.019	\$85,791,767
18-35	23,565,469	24,620,206	1.045	76,580,031
36-64	37,509,772	36,318,438	0.968	28,471,970
65+	3,126,269	3,020,290	0.966	10,386
Total	\$76,755,435	\$76,755,435	1.000	\$190,854,154
Using HO Distribution			1.022	

Attachment A
Percent GME of RCC Rate as of July 1, 2003

Hospital Name	Cost Report Year	(Dir Med Educ) Intern & Resident (Wks B, Part I Col 26, ln 95)	Adjusted Costs	Percent GME of RCC Costs
Children's Hosp & Med Ctr-Seattle	9/30/02	\$8,554,037	\$225,776,434	3.79%
Deaconess Med Ctr - Spokane - Contract	12/31/02	\$3,375,387	\$168,901,789	2.00%
Good Samaritan - Puyallup - Contract	9/30/02	\$302,139	\$117,278,935	0.26%
Harborview Medical Center-Seattle - Contract	6/30/02	\$21,374,730	\$385,808,732	5.54%
Northwest Hospital - Seattle - Contract	12/31/02	\$12,052	\$126,207,675	0.01%
Overlake Hospital Med Ctr-Bellevue - Contract	6/30/02	\$95,994	\$122,527,658	0.08%
Providence St Peter Hospital - Olympia	12/31/02	\$1,158,511	\$173,380,477	0.67%
Providence Yakima Med Ct - Contract	12/31/02	\$940,896	\$80,022,407	1.18%
Sacred Heart Med Ctr - Spokane - Contract	12/31/02	\$5,157,361	\$325,408,763	1.58%
Southwest Washington Med Ctr-Vancouver - Contract	9/30/02	\$2,631,269	\$211,374,956	1.24%
St Joseph Med Ctr - Tacoma - Contract	6/30/02	\$4,209,924	\$206,020,479	2.04%
Swedish Med Ctr (1st Hill & Ballard) - Seattle - Contract	12/31/02	\$6,330,180	\$433,902,758	1.46%
Swedish Med. Ctr Providence Campus	12/31/02	\$6,628,843	\$159,718,297	4.15%
Tacoma General Allenmore Hospital - Contract	12/31/02	\$2,862,538	\$282,150,679	1.01%
U of W Medical Ctr-Seattle - Contract	6/30/02	\$21,383,988	\$370,986,853	5.76%
Valley Hosp Med Ctr - Spokane - Contract	12/31/02	\$159,510	\$39,628,631	0.40%
Valley Medical Ctr - Renton - Contract	12/31/02	\$1,961,465	\$139,967,911	1.40%
Virginia Mason - Seattle - Contract	12/31/02	\$7,336,022	\$310,381,178	2.36%
Yakima Valley Memorial Hosp - Contract	10/31/02	\$1,207,227	\$96,455,036	1.25%
Legacy Emanuel Hospital - Portland - Contract	3/31/02	\$4,467,365	\$250,936,647	1.78%
Legacy Good Samaritan Hosp - Portland - Contract	3/31/02	\$3,000,009	\$166,372,969	1.80%
Oregon Health Sciences University Hosp-Portland - Contract	6/30/02	22,132,259	\$405,743,871	5.45%
Prov St Vincent Hosp Med Ctr-Portland - Contract	12/31/02	\$4,139,855	\$334,860,672	1.24%
Providence Portland Med Ctr - Contract	12/31/02	\$5,254,610	\$284,293,382	1.85%